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ABSTRACT

In recent years, several states have offered financial incentives to encourage child care centers and homes to become accredited by a reputable national organization to improve child care quality. This report examines whether it is good policy to offer higher reimbursement rates to accredited child care facilities and assesses the relative merits of alternative public policies that seek to improve U.S. child care. The report presents findings from an NAEYC study assessing the effects of differential reimbursement on center accreditation application rates. The study found that in a few small states, differential reimbursement boosted application rates modestly, with more substantial increases in three larger states. States with differential reimbursement policies differ in how much more they are willing to pay for accreditation, with a range of 5 to 20 percent more. The average reimbursement rate difference in states with a positive impact of differential reimbursement was 15.8 percent. The report suggests that states allow more than one accrediting organization to participate in the differential reimbursement process and describes situations in which differential reimbursement is not likely to improve quality. Other creative procedures to improve quality are also noted, including different types of monetary incentives for accreditation, technical assistance to guide staff through the accreditation process, or requirements for accreditation. The report concludes by asserting that differential reimbursement should be considered as only one method to improve child care quality and that accreditation information should be shared with parents. The report's appendix delineates the current reimbursement rates for the 18 states with accreditation-related differential reimbursements. (Contains 16 references.) (KB)

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WORKING PAPER SERIES

MONEY, ACCREDITATION, AND CHILD CARE CENTER QUALITY

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The purpose of the Working Paper Series is to share ideas and potential solutions about how all American families can meet the basic requirements for the healthy development of their children.

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MONEY, ACCREDITATION, AND CHILD CARE CENTER QUALITY

In recent years, a number of state legislatures have decided to offer financial incentives to encourage child care centers and family child care homes to become accredited by a reputable national organization (see Appendix A). The hope is that this will improve the quality of care that children receive.

The primary purpose of this paper, which draws on original empirical research, is to answer the question: is it good public policy to offer higher rates to accredited child care facilities? A second purpose of the paper is to assess the relative merits of alternative public policies that seek to improve the quality of child care in the United States.

WHY LINK MONEY, ACCREDITATION, AND CHILD CARE QUALITY?

CHILD CARE QUALITY MATTERS.

Why quality? A number of studies show that the quality of child care in the United States leaves much to be desired. According to the Cost, Quality, and Child Outcomes study, published in 1995, most child care centers are mediocre, as measured by their child/staff ratios, their staff training, and the interactions that take place between staff and children. According to a Families and Work Institute study, released in 1994, most family child care homes are mediocre, as measured by interactions between providers and children. A growing body of research concludes that the quality of care children receive in their earliest years (from birth to five) has both short-and long-term effects on cognitive and social development, educational attainment, and employment success. In short, child care quality matters.

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STANDARDS OF GOOD PRACTICE INCLUDE CHILD/STAFF RATIOS, TRAINING REQUIREMENTS, AND ADHERENCE TO HEALTH AND SAFETY PRECAUTIONS AND OTHERS.

Why accreditation? The explicit purpose of the National Association for the Education of Young Children (NAEYC) and other organizations that accredit child care facilities is to improve their quality. The method is to require child care facilities to meet certain standards of good practice before they can achieve accreditation. Such standards include child/staff ratios, training requirements, adherence to health and safety precautions, and others. At least two studies, by Suzanne Helburn and Marcy Whitebook, have found that centers accredited by the NAEYC are superior to other centers, and one of those studies has confirmed that at least some of the difference is attributable to accreditation.

CHILD CARE WAGES ARE REMARKABLY LOW. ANNUAL STAFF TURNOVER RATES RANGE FROM 25 PERCENT FOR CENTER-BASED CARE TO 40 PERCENT FOR FAMILY CHILD CARE.

Why financial rewards? Money is not the only way to motivate child care staff or other businesspersons, but it is of special interest to an industry that is starved for cash and plagued by high staff turnover. Child care wages are remarkably low, averaging about $13,000 per year for center staff members, and $10,000 per year for family child care providers. Annual staff turnover rates range from 25 percent for center-based care to 40 percent for family child care.

Without additional money – from the government, parents, or both – child care centers cannot recruit and retain talented staff members who are capable of meeting accreditation requirements. Nor can they maintain the relatively low child/staff ratios that the NAEYC requires.

STATE INITIATIVES TO IMPROVE QUALITY

A number of state legislatures have adopted differential reimbursement policies that pay accredited child care facilities at higher rates. In a small number of states, administrative agencies have established such policies without explicit

AS OF JULY 2000, 18 STATES HAVE ACCREDITATION-LINKED DIFFERENTIAL REIMBURSEMENT POLICIES IN PLACE.

legislative authorization. As of July 2000, 18 states have accreditation-linked differential reimbursement policies in place: Arizona, Florida, Hawaii, Kentucky, Louisiana, Minnesota, Mississippi, Missouri, Nebraska, New Jersey, New Mexico, Ohio, Oklahoma, South Carolina, Texas, Utah, Vermont, and Wisconsin.

Colorado's legislature has enacted differential reimbursement, but gives authority to the counties, none of which has yet implemented the policy. In two other states (*Connecticut* and *Massachusetts*), pre-kindergarten programs must apply for NAEYC accreditation if they are to receive "quality" dollars from their state. If they fail to achieve accreditation within three to four years, regional councils may decide that they are no longer eligible for such funds. Family child care providers in Massachusetts are also eligible to participate, provided that they are working towards a Child Development Associate credential.

STATE LEGISLATURES HAVE ADOPTED OTHER MEASURES AIMED AT IMPROVING CHILD CARE QUALITY.

Other state legislatures have expressed an interest in differential reimbursement. Legislation to establish differential reimbursement has been introduced in *California, Illinois, Montana,* and *Pennsylvania,* among other states. Also, state legislatures have adopted other measures aimed at improving child care quality. For example, the *North Carolina* Legislature instructed the state's Division of Child Development in 1997 to establish a "five star" rating system for all licensed child care facilities in the state. Under this system, which took effect in November 1999, each licensed facility receives a rating from state licensors, based on its staff education, program standards, and compliance history. The number of stars determines how much money the facility receives for each subsidized child in its care.

North Carolina's five-star rating system is one intriguing alternative to accreditation-linked

reimbursement, but not the only one. In *Mississippi*, accredited centers are eligible for a higher rate, but centers with better-trained providers are also eligible, even if they lack accreditation. In *Oregon*, providers who meet specified training requirements receive a seven percent rate hike. In *Maine*, parents receive a higher tax credit if they enroll a child in a "Quality Child Care Program." In *Georgia*, all four-year-olds are eligible to enroll in a lottery-funded prekindergarten program, which provides higher reimbursement rates based on teacher qualifications.

DIFFERENTIAL REIMBURSEMENT OPTIONS: HOW STATE STRATEGIES VARY

DIFFERENTIAL REIMBURSEMENT AFFECTS ONLY THOSE CHILD CARE FACILITIES THAT ALREADY RECEIVE STATE SUBSIDIES FOR SERVING LOW-INCOME OR AT-RISK CHILDREN.

In contrast to other incentive strategies, differential reimbursement affects only those child care facilities that already receive state subsidies for serving low-income or at-risk children. Programs that achieve accreditation become eligible to receive subsidies at a higher rate than those that are only licensed. The rationale is that the added funds serve not only as an inducement to become accredited (presumably thereby improving quality), but also as compensation for the added expenses that come with the higher standards of accreditation, such as lower child/staff ratios.

Rates

MOST STATES STIPULATE THAT PROGRAMS MAY NOT RECEIVE A HIGHER SUBSIDY RATE THAN THEY CHARGE THEIR UNSUBSIDIZED FAMILIES.

States differ widely in the amount of the rate differential awarded. These rates range from five percent increases in *Ohio* and *New Jersey* to approximately 20 percent or more in *Florida*, *Missouri*, *Nebraska*, *Oklahoma*, and *South Carolina*. *Texas* policy requires a minimum increase of five percent, but gives regional bodies the authority to grant more. Most states, however, stipulate that programs may not receive a higher subsidy rate than they charge their unsubsidized families. For

example, a program that charges $375 per month to the general public may not receive a subsidy higher than $375, even if the rate differential would exceed that amount.

Authorized Accrediting Bodies

ALL STATES WITH DIFFERENTIAL REIMBURSEMENT POLICIES ACCEPT ACCREDITATION BY NAEYC.

There is also substantial state variation in the rules qualifying child care providers for participation in differential reimbursement programs. All states with differential reimbursement policies accept accreditation by NAEYC, which is the largest national accrediting organization, but some states accept other credentials as well. National Early Childhood Program Accreditation (NECPA), the National School-Age Care Alliance (NSACA), the Council on Accreditation of Services for Children and Families (COA), and the National Accreditation Commission for Early Care and Education Programs (NACECEP) are also accepted in several states. Montessori schools have their own accrediting bodies, as do Christian educational facilities, and these are accepted in a few states. In *Florida*, the Florida Association for Child Care Management runs the APPLE accreditation program.

The above-mentioned organizations accredit schools and group child care centers, but many states with differential reimbursement policies also permit family child care homes to participate. These homes must generally be accredited by the National Association of Family Child Care (NAFCC) and/or have providers with a CDA credential to receive the state's enhanced subsidy rates.

HOW IS DIFFERENTIAL REIMBURSEMENT WORKING? EARLY RESULTS FROM THE STATES

A study funded by the Foundation for Child Development and directed by William Gormley attempted to assess the effects of differential reimbursement on NAEYC accreditation application rates of group child care centers. NAEYC was

NAEYC ONLY ACCREDITS CHILD CARE CENTERS, NOT FAMILY CHILD CARE HOMES, SO THE LATTER WERE NOT PART OF THIS STUDY.

selected because it currently has the largest and most geographically extensive membership in the country, and because it maintains a computerized database of all facilities that apply for accreditation. NAEYC only accredits child care centers, not family child care homes, so the latter were not part of this study.

Methodology

The NAEYC data were obtained for all centers that first applied for accreditation between January 1, 1995, and October 31, 1999. Centers from Florida, Kentucky, Mississippi, Nebraska, New Jersey, New Mexico, Ohio, Oklahoma, Utah, and Wisconsin were included in the analysis, because differential reimbursement programs had begun in those states during the time period for interest. Although several other states also implemented programs during that time, they occurred too late in 1999 for meaningful interpretation to be possible. Duplicate entries and re-applications were eliminated from the data set, so that only first-time applications remained. If an application date was missing, the center was contacted for clarification. The data were then subjected to time-series analysis, a process that mathematically calculates the impact a policy intervention has over time while controlling for seasonal variation or other outside effects.

Findings for Small States

For three of the states (*Kentucky, Utah,* and *Wisconsin*), the results were not statistically significant and thus cannot be interpreted. Although disappointing, this may be because these states had relatively small numbers of child care centers applying for accreditation. Small numbers in a study can aggravate the effects of random "noise" in the data, skewing the overall results.

A FEW SMALL STATES DID SHOW PROMISING RESULTS.

A few of the small states did show promising results, however. In *New Mexico*, implementing the differential reimbursement policy was found to increase the number of centers applying for accreditation by 0.9 per month (the equivalent of 10.8 centers annually). For *Nebraska*, the increase was 1.42 per month (or 17 per year). *Oklahoma's* policy raised application rates by 2.16 per month (25.9 annually). In *Mississippi*, differential reimbursement boosted application rates by 1.22 per month (14.6 annually). While all of these results are modest, they seem more substantial in comparison to the total number of accreditation applications. For example, Nebraska was averaging eight applications per year just prior to the adoption of differential reimbursement, while Oklahoma was averaging 11.

Findings for Large States

THREE OF THE LARGER STATES HAD MORE SUBSTANTIAL RESULTS.

Three of the larger states – Florida, New Jersey, and Ohio – had more substantial results. In *New Jersey*, the differential reimbursement policy was found to increase accreditation applications by 9.5 centers per month (or 114 per year). A change in the state's child care licensing requirements, however, decreased applications slightly. This makes sense if one assumes that changes in regulations cause child care programs to focus resources on meeting those new regulations, with little time or money left over for pursuing accreditation. The effect should be temporary.

Ohio's data included not only the state's differential reimbursement policy but also interventions to facilitate accreditation by the Ohio Department of Education and the Sisters of Charity Foundation of Canton, Ohio. Although the effects of differential reimbursement were not statistically significant at an acceptable level, they increased accreditation applications by 3.2 per month (or 38.4 per year). Grants by the Sisters of

Charity increased applications for a limited period of time, first by 12.7 centers per month, and then by 6.8 centers per month. Interventions by the Ohio Department of Education also boosted applications, though the effects of a pilot project in Lucas County were clearer than the effects of expanding the program statewide.

Florida was more complicated. Differential reimbursement technically started there in May 1996, but funds were not appropriated until two years later. In the meantime, accredited centers would receive "Gold Seal" status, but did not get extra money. Another difficulty was that Florida later began allowing accreditation by several organizations besides NAEYC to count towards differential reimbursement. Although the analysis showed that Florida's differential reimbursement policy increased the number of centers applying for NAEYC accreditation by 4.5 per month, the results were not statistically significant. When applications for all accrediting bodies (NECPA, APPLE, etc.) were included, however, the results became significant and jumped to 7.2 additional centers per month, or 86.4 per year.

What These Results Suggest

IT IS POSSIBLE TO BE FAIRLY PRECISE ABOUT THE NUMBER OF CHILD CARE CENTERS AFFECTED BY DIFFERENTIAL REIMBURSEMENT POLICIES AIMED AT FACILITATING ACCREDITATION.

It is possible to be fairly precise about the number of child care centers affected by differential reimbursement policies aimed at facilitating accreditation. Differential reimbursement boosts the number of centers seeking NAEYC accreditation by 38 per year in Ohio, 114 per year in New Jersey, and 54 in Florida, but not all of these centers will go on to achieve accreditation. If we use the NAEYC's 60 percent failure rate to capture the discrepancy between accreditation and accreditation applications, then differential reimbursement boosts the number of centers achieving NAEYC accreditation by 15 per year in

Ohio, 46 per year in New Jersey, and 22 per year in Florida.

Based on NAEYC data on the number of children per accredited center per state, it is further possible to specify the number of children affected by differential reimbursement. Improvements at 15 centers per year in Ohio mean better child care for 1,380 children; improvements at 46 centers per year in New Jersey mean better child care for 4,830 children; and improvements at 22 centers per year in Florida mean better child care for 2,024 children. These effects are likely to be noticeable within one to three years after differential reimbursement kicks in. In practice, the effects may be negligible in some instances, substantial in others. Research suggests that low-income children will be more affected by improvements in child care quality than other children.

RESEARCH SUGGESTS THAT LOW-INCOME CHILDREN WILL BE MORE AFFECTED BY IMPROVEMENTS IN CHILD CARE QUALITY THAN OTHER CHILDREN.

LESSONS FOR STATES: DESIGNING DIFFERENTIAL REIMBURSEMENT STRATEGIES

What exactly should a state do if it is interested in promoting accreditation through financial incentives? Among the issues states must confront are:

- how high to set the rate differential;
- whether to allow subsidized rates to exceed private pay rates under any circumstances;
- which accrediting bodies to include in the pool of eligibles; and
- whether to cover family child care homes or just group child care centers.

STATES WITH DIFFERENTIAL REIMBURSEMENT POLICIES DIFFER SHARPLY IN HOW MUCH MORE THEY ARE WILLING TO PAY FOR ACCREDITATION.

States with differential reimbursement policies differ sharply in how much more they are willing to pay for accreditation. At one extreme are states like *Ohio* and *New Jersey*, which pay only 5 percent more for accredited care; at the other extreme

are several states that pay 20 percent more (or higher) for accredited care (*Florida, Missouri, Nebraska, Oklahoma,* and *South Carolina*).

Of the states we examined, differential reimbursement had a statistically significant positive effect in six (*Florida, Mississippi, Nebraska, New Jersey, New Mexico,* and *Oklahoma*), no statistically significant effect in four others (*Kentucky, Ohio, Utah, Wisconsin*). The average reimbursement rate difference in the first group of states was 15.8; the average in the second group was 9.2. This suggests a simple but important lesson: HIGHER RATES HAVE HIGHER IMPACTS. Or to put it more emphatically, a state that wants to maximize its chances of having a positive impact should set its rates for accredited centers at least 15 percent higher than its regular rates.

A STATE THAT WANTS TO MAXIMIZE ITS CHANCES OF HAVING A POSITIVE IMPACT SHOULD SET ITS RATES FOR ACCREDITED CENTERS AT LEAST 15 PERCENT HIGHER THAN ITS REGULAR RATES.

States with differential reimbursement policies also differ in which accrediting organizations are allowed to participate. At one end of the spectrum are states like *Hawaii, Louisiana,* and *South Carolina,* which only allow NAEYC to participate; at the other end of the spectrum is *Florida,* which allows half a dozen organizations to participate.

THERE IS MUCH TO BE SAID FOR ALLOWING MORE THAN ONE ACCREDITING ORGANIZATON TO PARTICIPATE IN THE DIFFERENTIAL REIMBURSEMENT PROCESS.

There is much to be said for allowing more than one accrediting organization to participate in the differential reimbursement process. NAEYC's standards, though impressive, do not represent the only reasonable path to quality improvement. Other organizations, like NECPA, have standards that closely resemble NAEYC's. Moreover, NAEYC faces a growing backlog of applications that makes it difficult for that organization to respond to all accreditation requests in a timely manner. Beyond that, competition is generally desirable, whether that competition involves child care centers or organizations that accredit child care centers.

STATES MUST ASK THEMSELVES JUST HOW FAR THEY ARE WILLING TO GO IN CEDING TO THE PRIVATE SECTOR THE RIGHT TO DEFINE CHILD CARE QUALITY.

All things considered, states must ask themselves just how far they are willing to go in ceding to the private sector the right to define child care quality. Clearly, states should not allow any organization that comes along to participate in a differential reimbursement program. To do so would be unfair to parents and, more importantly, to children. But where should states draw the line? Should they allow an organization with no teacher education requirements to participate? We believe that the answer to these questions is no, though reasonable people will disagree on precisely where the line should be drawn. Our rule of thumb is this: an accrediting organization should be eligible to participate only if its standards offer the likelihood of substantial quality improvement as measured by the variables of greatest importance in the relevant research. These variables include education and training requirements for staff, child/staff ratios, and health and safety precautions.

RULE OF THUMB: AN ACCREDITING ORGANIZATION SHOULD BE ELIGIBLE TO PARTICIPATE ONLY IF ITS STANDARDS OFFER THE LIKELIHOOD OF SUBSTANTIAL QUALITY IMPROVEMENT

OTHER STATE STRATEGIES TO IMPROVE QUALITY

DIFFERENTIAL REIMBURSEMENT IS ONLY ONE OF MANY CREATIVE METHODS THAT STATES ARE USING TO PROMOTE ACCREDITATION AND TO IMPROVE CHILD CARE QUALITY.

Differential reimbursement is only one of many creative methods that states are using to promote accreditation and to improve child care quality.

- *North Carolina's* five-star rating system has already been discussed. Other states have similar types of multi-level status ratings that, with accompanying subsidies, may help push centers towards accreditation for the added prestige and publicity.
- *Florida* centers are given "Gold Seal" status when they achieve accreditation.
- In *Mississippi*, centers move from "Tier Two" to "Tier One" once accredited.
- In *New Mexico's* new Aim High program, centers progress through five different levels as they meet higher measures of quality. With the top three levels (the highest of which is

accreditation), centers receive higher reimbursement rates.

- *Oklahoma* has a program called Reaching for the Stars: one-star centers are licensed and receive the base market rate; two-star centers receive higher rates and must either be accredited or meet certain state standards; and three-star centers have to do both in order to get even higher reimbursement rates.
- A similar system in *South Carolina* requires level-two centers to meet stricter standards than normal licensing regulations, and level-three centers must be accredited.

STATES ARE ALSO EXPERIMENTING WITH DIFFERENT TYPES OF MONETARY INCENTIVES TOWARD ACCREDITATION.

States are also experimenting with different types of monetary incentives towards accreditation.

- *Florida*, in particular, is pulling out all the stops to make accreditation desirable. Its accredited Gold Seal centers are given property tax-exempt status. Also, Gold Seal centers may purchase supplies without paying state sales taxes. The legislature is also working on providing state employee benefits to the staffs of Gold Seal centers.

SOMETIMES FINANCIAL INCENTIVES ARE NOT ENOUGH.

Sometimes financial incentives are not enough. Quite a few accreditation facilitation projects, sometimes co-sponsored by state agencies and private foundations, provide accreditation assistance and advice. Many of these pay the self-study and validation fees associated with accreditation, but perhaps more importantly they guide staff through the process. Workshops, retreats, and on-site counseling are common ways these programs give an added boost to accreditation efforts. *Arizona, Connecticut, Massachusetts, New Jersey, Ohio,* and *Oklahoma* are among the states with such projects in place. Although *Wisconsin* does not have a facilitation project, it does offer substantial grants to help centers meet the cost of accreditation and other

bonus grants for those that maintain high standards, including low staff turnover, good salaries, and additional training.

ONE CERTAIN WAY TO ENSURE ACCREDITATION IS TO REQUIRE IT OF ALL CENTERS.

One certain way to ensure accreditation is to require it of all centers. So far only the federal government has gone this route. First, the U.S. Department of Defense decreed that all of its child care facilities must become accredited by the NAEYC. President Clinton followed suit in 1998, declaring that all eligible federal child care programs (military and otherwise) should be NAEYC-accredited by 2000. By July 2000, 74 of the 114 child care centers run by the General Services Administration (GSA) had achieved accreditation. GSA monitors its centers' progress and helps them maintain quality once they are accredited.

CONCLUSIONS

Accreditation-linked differential reimbursement is a good strategy for encouraging child care centers to become accredited. It works in most states, and it is particularly likely to work if the reimbursement increment is 15 percent or more above the rate normally paid for subsidized child care. The costs to governments vary depending on each state's rate schedule, including the base rate and the accredited care rate. The costs and benefits also depend on how many centers respond to differential reimbursement by seeking accreditation, how many centers seeking accreditation ultimately become accredited, and how many children each of these centers serves.

COSTS AND BENEFITS DEPEND ON HOW MANY CENTERS RESPOND TO DIFFERENTIAL REIMBURSEMENT BY SEEKING ACCREDITATION, HOW MANY CENTERS SEEKING ACCREDITATION ULTIMATELY BECOME ACCREDITED, AND HOW MANY CHILDREN EACH OF THESE CENTERS SERVES.

In *New Jersey*, where the state pays 5 percent more for accredited child care, the annual cost of subsidizing a preschool child at an accredited center is $291 more than it would be at a non-accredited center. As noted earlier, differential reimbursement in New Jersey is expected to

increase the number of accredited centers by 46 centers per year, with quality improvements for 4,830 children. In other states, the costs are likely to be higher, even if their base rates are lower, because New Jersey's 5 percent increment is at the low end of the spectrum.

Three Caveats

Although differential reimbursement has much to commend it, three caveats need to be stressed. First, quality improvements have been linked to NAEYC accreditation, but have not been demonstrated for other accrediting bodies. Whether quality improvements actually flow from accreditation by organizations other than NAEYC will depend on their standards. An accrediting body whose standards fail to push the envelope beyond existing state licensing standards is unlikely to yield any quality improvements.

AN ACCREDITING BODY WHOSE STANDARDS FAIL TO PUSH THE ENVELOPE BEYOND EXISTING STATE LICENSING STANDARDS IS UNLIKELY TO YIELD ANY QUALITY IMPROVEMENTS.

Second, differential reimbursement is likely to prove attractive to good child care centers that want to become excellent, but is unlikely to appeal to bad or mediocre child care centers that have trouble satisfying state licensing requirements. And yet such centers are precisely the ones where children are most at risk.

DIFFERENTIAL REIMBURSEMENT IS UNLIKELY TO APPEAL TO BAD OR MEDIOCRE CHILD CARE CENTERS THAT HAVE TROUBLE SATISFYING STATE LICENSING REQUIREMENTS.

Third, differential reimbursement will at best affect a fairly small percentage of child care centers. Even in New Jersey, where differential reimbursement has yielded an annual increase of 46 accredited centers, that figure represents less than 2 percent of all the centers in the state. Within five years of course, that could approximate as much as a 10 percent increase. However, there is no guarantee that the impact of differential reimbursement will continue at the same pace into the future.

DIFFERENTIAL REIMBURSEMENT WILL AT BEST AFFECT A FAIRLY SMALL PERCENTAGE OF CHILD CARE CENTERS.

IT IS IMPORTANT TO VIEW DIFFERENTIAL REIMBURSEMENT AS ONE TOOL IN THE TOOL BOX OF CHILD CARE QUALITY IMPROVEMENT EFFORTS.

For all these reasons, it is important to view differential reimbursement not as a magic bullet, but rather as one tool in the tool box of child care quality improvement efforts. Other tools include the TEACH program, pioneered in *North Carolina*, subsequently adopted in other states. That program provides financial incentives for child care center and family child care staff to take child development courses at community colleges and other institutions of higher learning. By focusing on teacher education, arguably the single most important correlate of child care quality, and teacher compensation, arguably the single most difficult problem facing the child care industry, the TEACH program represents a felicitous combination of policy approaches. However, the TEACH program has not yet been systematically evaluated.

Another more recent North Carolina innovation, the five-star tiered-reimbursement system, is also worthy of consideration. Under this program, inaugurated in 1999, state licensors assign one to five stars to every regulated child care facility in the state. The number of stars determines the reimbursement rate for subsidized children for each facility, with more stars yielding higher rates.

PERHAPS THE MOST COMPELLING ADVANTAGE OF THE FIVE-STAR SYSTEM IS THAT IT HAS THE CAPACITY TO AFFECT ALL LICENSED CHILD CARE FACILITIES AND NOT JUST A SMALL SUBSET OF THOSE FACILITIES.

An advantage of the North Carolina system is that it measures quality directly. Thus, licensors actually observe staff members interacting with children as one of several measures of quality. Another advantage of the North Carolina approach is that it does not depend on NAEYC or other accrediting organizations for its success. As NAEYC has struggled to cope with a backlog of applications, that is increasingly important. Perhaps the most compelling advantage of the five-star system is that it has the capacity to affect all licensed child

care facilities and not just a small subset of those facilities.

The North Carolina system is not without its faults. In comparison to other licensing systems, it is time-consuming and demanding. It remains to be seen whether North Carolina (or any other state) can integrate a multi-dimensional quality assessment with a traditional licensing system. At the very least, it is likely to require a considerable increase in the number of state licensors. Another matter to watch is whether insurmountable pressure builds on licensors to award more stars to facilities than they actually deserve. With any high-stakes assessment, grade inflation can occur. As the five-star system evolves, it will be important for licensors and their supervisors to maintain the system's integrity.

AS THE FIVE-STAR SYSTEM EVOLVES, IT WILL BE IMPORTANT FOR LICENSORS AND THEIR SUPERVISORS TO MAINTAIN THE SYSTEM'S INTEGRITY.

Whatever steps states choose to improve child care quality, it is essential that they share good comparative data on quality with parents. Parents should know which child care facilities are accredited and which are not, which facilities have well-educated teachers and which do not, which facilities have five stars and which have only one star. If such information is routinely released by state child care agencies and local resource and referral agencies, parents will be better equipped to take quality into account and to put pressure on child care providers to do a better job. The effects of state child care initiatives can be enhanced considerably if parents become active partners in the quest for better child care.

PARENTS SHOULD KNOW WHICH CHILD CARE FACILITIES ARE ACCREDITED AND WHICH ARE NOT, WHICH FACILITIES HAVE WELL-EDUCATED TEACHERS AND WHICH DO NOT, WHICH FACILITIES HAVE FIVE STARS AND WHICH HAVE ONLY ONE.

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APPENDIX A
States With Accreditation-Related Differential Reimbursement

State	Date of Adoption	Current Rate
Arizona	July 1999	10%
Florida	July 1998	20%
Hawaii	November 1999	7%
Kentucky	October 1997	10 - 15%*
Louisiana	February 1993	10%
Minnesota	July 1984	10%
Mississippi	October 1997	10%
Missouri	September 1999	20%
Nebraska	January 1998	20%
New Jersey	January 1998	5%
New Mexico	July 1997	12 - 17%*
Ohio	October 1997	5%
Oklahoma	February 1998	10 - 42%**
South Carolina	April 1992	26 - 28%*
Texas	September 1999	5%***
Utah	January 1999	10%
Vermont	July 1994	15%
Wisconsin	March 1997	10%

* These states have varying rate increases depending on age of children and location (urban vs. rural) of centers. The ranges here refer only to centers providing full-time care.

** Oklahoma has a three-star system: one star refers to the base rate; two stars are awarded to a facility that is accredited or meets state quality standards; and three stars are awarded to a facility that is accredited *and* meets state quality standards. To qualify for two or three stars, a facility must also have a history of compliance with state licensing requirements. The percentage range in the above table refers to the difference between a two-star and a one-star rate.

*** The Texas reimbursement rate differential is set at the discretion of regional Workforce Commissions. Five percent is the minimum required rate increase.

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